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TREASURY FOR OASIA--MILLS/CHANG
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SUBJECT: TFI201: JORDANIAN MARKETS REACT CALMLY TO START OF
HOSTILITIES

Sensitive but Unclassified.

1. (sbu) We have been in touch with the finance ministry, central bank, and local bankers, and have reported in our sitreps and other messages that Jordanian financial markets have been calm, with no exceptional demand for dollars or withdrawal of deposits. There has been no pressure on foreign exchange reserves.
2. (sbu) The stock market index closed up 1.25% on Thursday (closed on Friday, Saturday). The biggest gainers were industrial companies that might participate in Iraq reconstruction and more liberal trade with Iraq. Banks have lots of cash dollars on hand to meet any extraordinary demand for banknotes, and have had no problems with correspondent banks outside the region.
3. (sbu) In addition, the central bank has ordered commercial banks to freeze deposits of the Iraqi government and known fronts and to monitor all other Iraqi accounts for suspicious movements.
4. (sbu) The oil flow from Iraq has stopped, and there appears to have been a smooth shift to use of stocks in Aqaba and Zarqa. Along with the common understanding that the Gulf countries will provide concessional oil, this has been reassuring. (FM Muasher told the Ambassador March 21 that he had been in touch with the Saudis, UAE, and Kuwaitis to nail down the final logistical and financial details.) Markets are also reassured by the high level (\$3.5 billion) of official foreign exchange reserves.
5. (sbu) QIZ exports have been able to continue as the Israeli border remains open for shipments via Haifa and Aqaba port remains open. Non-regional carriers have sharply curtailed air service, but the airport remains open and Royal Jordanian is trying to fly as many of its regular flights as possible, including direct service to the United States.
6. (sbu) Swift action on the OFF readjustments to allow the UN to certify delivery of OFF goods in Jordan rather than in Iraq would also help minimize the impact of the conflict on those banks involved in OFF trade.
7. (sbu) On Sunday, the Ambassador and Finance Minister will the bilateral debt rescheduling agreement. This will give the Ambassador an excellent platform to highlight US assistance to Jordan and the investment the US has made in the bilateral economic relationship. This should provide another element of reassurance for economic actors, who generally expect the US to provide extraordinary assistance to help Jordan weather the initial impact of a conflict.

GNEHM